

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chippewa County Road Commission	County Chippewa
Fiscal Year End December 31, 2006	Opinion Date April 2, 2007	Date Audit Report Submitted to State April 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

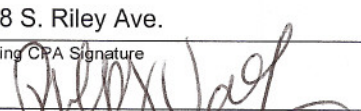
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Ave.		City Kincheloe	State MI
Authorizing CPA Signature 		Printed Name Phillip J. Wolf, CPA	Zip 49788
		License Number 1101017275	

**CHIPPEWA COUNTY ROAD COMMISSION**

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

**CHIPPEWA COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Clifford H. Carr  
Chairman

Donald M. Holt  
Vice Chairman

Louis N. MacDonald  
Member

Dirk Heckman  
Engineer – Manager

Brian Decker  
Office Manager

Christine McDowell  
Clerk

Paul Wilson  
General Superintendent

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Chippewa County Road Commission  
3949 S. Mackinac Trail  
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of the County of Chippewa, Michigan) as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Chippewa County Road Commission as of December 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2007 on our consideration of the Chippewa County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chippewa County Road Commission's basic financial statements. The schedules listed as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

April 2, 2007

## **Management's Discussion and Analysis**

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### **Using This Annual Report**

The Chippewa County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

### **Reporting the Road Commission as a Whole**

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### **Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 26 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.



**The Road Commission as a Whole**

The road commission's net assets increased approximately 6.6% from \$62 million to \$66 million for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$183,334. The primary reason for the increases was a decrease in federal and state support for road projects.

Net assets as of the years ended December 31, 2006 and 2005 follows:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 4,072,473	\$ 4,467,155
Capital Assets	<u>64,107,313</u>	<u>59,615,256</u>
Total Assets	<u>\$ 68,179,786</u>	<u>\$ 64,082,411</u>
Current Liabilities	\$ 908,766	\$ 1,098,516
Other Liabilities	<u>1,161,408</u>	<u>973,786</u>
Total Liabilities	<u>2,070,174</u>	<u>2,072,302</u>
Net Assets		
Invested in Capital Assets -		
Net of Related Debt	63,105,774	58,822,937
Restricted	<u>3,003,838</u>	<u>3,187,172</u>
Total Net Assets	<u>\$ 66,109,612</u>	<u>\$ 62,010,109</u>

A summary of changes in net assets for the years ended December 31, 2006 and 2005 follows:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for Services	\$ 1,476,488	\$ 1,404,544
Grants and Contributions	7,984,156	7,197,922
Interest Income	69,944	23,265
General Revenues		
Property Taxes	595,498	566,297
Gain on Equipment Disposal	<u>135,139</u>	<u>3,451</u>
Total Revenues	<u>10,261,225</u>	<u>9,195,459</u>
Program Expenses		
Primary Roads	2,474,512	2,635,634
Local Roads	1,311,212	1,894,666
State Trunkline	1,379,565	1,350,676
Equipment Expense	519,040	168,556
Administrative	238,837	250,627
Interest Expense and Other	<u>238,556</u>	<u>205,003</u>
Total Expenses	<u>6,161,722</u>	<u>6,505,162</u>
Changes in Net Assets	4,099,503	2,690,297
Net Assets – Beginning	<u>62,010,109</u>	<u>59,319,812</u>
Net Assets – Ending	<u>\$ 66,109,612</u>	<u>\$ 62,010,109</u>

**The Road Commission's Fund**

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the general operations fund decreased \$273 thousand as compared to an increase of \$368 thousand in the fund balance for the prior year. Total revenues were \$10.2 million, an increase of \$1.05 million as compared to last year. This change in revenues resulted primarily from federal and state critical bridge funding.

Total expenditures were \$11.1 million, an increase of \$2.3 million as compared to last year. This change in expenditures is primarily the result of bridge structures and capital outlay activities in the current year. The road commission incurred an increase to capital outlay due to significant equipment purchases.

**Budgetary Highlights**

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2006 was higher than the actual receipts by \$53 thousand. This was due, in part, to the projection of state funding. The road commission budgets for the receipt of funds from the state for projects on primary and local roads.

Road Commission expenditures were projected at \$10.8 million while actual expenditures were \$11.1 million. This resulted in total expenditures being over budget by \$245 thousand. There were two items that account for most of the variance in the projection of the budget. A share of the variance is in the area of equipment expense. Expenditures for primary road expenditures were over the budget by \$130 thousand, due to a change in accounting procedure not foreseen with regards to work-in-process on future year projects.

**Capital Assets**

As of December 31, 2006 and 2005, the road commission had invested in capital assets as follows:

	<u>2006</u>	<u>2005</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 154,150	\$ -
Land and Improvements	34,023,533	31,077,358
Other Capital Assets		
Buildings and Improvements	4,087,264	4,075,132
Road Equipment	10,609,751	9,708,203
Other Equipment	1,374,229	1,370,228
Infrastructure	<u>42,602,051</u>	<u>40,759,411</u>
Total Capital Assets at Historic Cost	92,850,978	86,990,332
Total Accumulated Depreciation	<u>(28,743,665)</u>	<u>(27,375,076)</u>
Total Net Capital Assets	<u>\$ 64,107,313</u>	<u>\$ 59,615,256</u>

Major additions included the following:

Buildings	<u>\$ 12,132</u>	<u>\$ 3,250</u>
Land & Improvements	<u>\$ 2,946,175</u>	<u>\$ 1,834,233</u>
Various Resurfacing Projects and Bridges	<u>\$ 2,910,666</u>	<u>\$ 2,324,357</u>
Trucks/Equipment/Other	<u>\$ 1,349,857</u>	<u>\$ 531,810</u>

### **Debt**

The road commission currently has long-term debt in the amount of \$1.4 million which represents land and equipment financing and compensated absences.

### **Economic Factors and Next Year's Budget**

The board of county road commissioner's considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The road commission derives approximately 63% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Chippewa County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

### **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chippewa County Road Commission administrative offices at 3949 S. Mackinac Trail, Sault Ste. Marie, MI 49783.

## **Basic Financial Statements**

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# Chippewa County Road Commission

## Statement of Net Assets December 31, 2006

### **ASSETS**

Cash and Equivalents	\$ 1,438,492
Accounts Receivable:	
Property Taxes	592,046
Michigan Transportation Fund	670,622
State – Other	181
Due on County Road Agreements	232,854
Trunkline Maintenance	189,007
Inventories:	
Road Materials	519,039
Equipment, Parts and Materials	255,054
Prepaid Expense	175,178
Capital Assets (Net of Accumulated Depreciation)	<u>64,107,313</u>
Total Assets	<u>\$ 68,179,786</u>

### **LIABILITIES**

Current Liabilities:	
Accounts Payable	\$ 101,540
Due to State of Michigan	2,625
Accrued Liabilities	55,715
Advances from State	486,465
Escrow	5,000
Installment Purchase Agreements Payable	257,421
Noncurrent Liabilities:	
Vested Employee Benefits	417,290
Installment Purchase Agreements Payable	<u>744,118</u>
Total Liabilities	<u>2,070,174</u>

### **NET ASSETS**

Investment in Capital Assets -	
Net of Related Debt	63,105,774
Restricted for County Road	<u>3,003,838</u>
Total Net Assets	<u>\$ 66,109,612</u>

# Chippewa County Road Commission

## Statement of Activities For the Year Ended December 31, 2006

### Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 2,474,512
Local Road Maintenance and Preventive Maintenance	1,311,212
State Trunkline Maintenance	1,379,565
Net Equipment Expense	519,040
Net Administrative Expense	238,837
Compensated Absences	(61,958)
Interest Expense	44,230
Other	<u>256,284</u>

Total Program Expenses	<u>6,161,722</u>
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### Program Revenues:

Charges for Services:	
Charges for Services	1,476,488
Contributions from Local Units	35,303
Operating Grants and Contributions:	
Michigan Transportation Funds	4,710,968
Investment Earnings	69,944
Capital Grants and Contributions:	
Federal Grants	1,244,944
State Grants	1,271,590
Contributions from Local Units	<u>721,351</u>

Total Program Revenues	<u>9,530,588</u>
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Net Program Revenues	<u>3,368,866</u>
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### General Revenue

Property Taxes	595,498
Gain on Equipment Disposal	<u>135,139</u>

Total General Revenues	<u>730,637</u>
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Changes in Net Assets	4,099,503
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### Net Assets

Beginning of Year	<u>62,010,109</u>
End of Year	<u>\$ 66,109,612</u>

# Chippewa County Road Commission

## Balance Sheet December 31, 2006

	Governmental Fund Type General Operating Fund
<b><u>ASSETS</u></b>	
Cash and Equivalents	\$ 1,438,492
Accounts Receivable	
Property Taxes	592,046
Michigan Transportation Fund	670,622
State Trunkline Maintenance	189,007
State – Other	181
Due on County Road Agreements	232,854
Inventories	
Road Materials	519,039
Equipment, Parts, and Materials	255,054
Prepaid Expenses	<u>175,178</u>
Total Assets	<u>\$ 4,072,473</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 101,540
Accrued Liabilities	55,715
Due to State of Michigan	2,625
Escrow	5,000
Advances from State	486,465
Deferred Revenue	<u>592,046</u>
Total Liabilities	<u>1,243,391</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>2,829,082</u>
Total Fund Equities	<u>2,829,082</u>
Total Liabilities and Fund Equities	<u>\$ 4,072,473</u>



**Reconciliation of the Balance Sheet Fund  
Balance to the Statement of Net Assets  
For the Year Ended December 31, 2006**

Total Governmental Fund Balance	\$ 2,829,082
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	64,107,313
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(1,418,829)
2006 tax levy not considered "available" in governmental funds but is recognized as revenue in the statement of activities.	<u>592,046</u>
Net Assets of Governmental Activities	<u>\$ 66,109,612</u>

**Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended December 31, 2006**

	<u>General Operating Fund</u>
Revenues	
Property Taxes	\$ 567,786
Federal Sources	1,244,944
State Sources	5,982,558
Contributions from Local Units	756,654
Charges for Services	1,401,836
Interest and Rents	69,944
Other Revenue	<u>209,791</u>
Total Revenues	<u>10,233,513</u>
Expenditures	
Public Works	10,236,021
Capital Outlay	435,486
Debt Service	<u>448,486</u>
Total Expenditures	<u>11,119,993</u>
Excess of Revenues Over (Under) Expenditures	(886,480)
Other Financing Sources:	
Installment Proceeds	<u>613,477</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(273,003)
Fund Balance – January 1, 2006	<u>3,102,085</u>
Fund Balance – December 31, 2006	<u><u>\$ 2,829,082</u></u>

## Chippewa County Road Commission

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### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2006

Net Change in Fund Balance – Total Governmental Funds	\$ (273,003)
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation and equipment retirements in the current period.	4,492,057
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Net increase in revenue between 2006 and 2005 tax levy.	27,712
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Note/lease proceeds provide current financial resources in governmental funds and increases liabilities in the statement of net assets. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	(209,221)
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Change in compensated absences recognized as a negative expense in the statement of activities.	<u>61,958</u>
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Change in Net Assets of Governmental Activities	<u>\$ 4,099,503</u>
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## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Chippewa County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Chippewa County Road Commission.

**A. Reporting Entity**

The Chippewa County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Chippewa County Board of County Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by GASB No. 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Chippewa County Road Commission, a discretely presented component unit of Chippewa County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Chippewa County Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

**Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 31st. The 2006 taxable valuation of \$920,915,210 for Road Millage amounted to \$850,578 less \$258,532 for cities and villages, (on which ad valorem taxes of .9607 mills were levied) for road maintenance purposes resulted in net total of \$592,046.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County's 2006 ad valorem tax is levied and collectible December 1, 2006, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred revenue.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Chippewa County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Chippewa County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Vacation – Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated at the rate of pay in effect when it was earned.

Sick Leave – Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 480 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 240 hours at their current rate of pay.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Office Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are listed in the Budgetary Comparison Schedule – Statement of Expenditures.



**NOTE 3 - CASH AND DEPOSITS**

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

	Carrying Amount	Financial Institution Balance
Public Money Market Funds	\$ 576,992	\$ 576,992
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	861,350	990,768

*Interest rate risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

*Custodial credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission's \$576,992 of investments, are pooled public funds in the name of the agent. Credit quality ratings of public money funds were not available from the financial institution or are unrated.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$661,350 of the Commission's bank balance of \$861,350 was exposed to credit risk because it was uninsured and uncollateralized.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Chippewa County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Chippewa County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Chippewa County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Chippewa County Road Commission for the current year was as follows:

	Beginning Balances 01/01/06	Additions	Adjustments/ Deductions	Ending Balances 12/31/06
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ -	\$ 154,150	\$ -	\$ 154,150
Land and Improvements	256,965	5,000	2,304	264,269
Land/Improvements - Infrastructure	<u>30,820,393</u>	<u>2,941,175</u>	<u>(2,304)</u>	<u>33,759,264</u>
Subtotal	<u>31,077,358</u>	<u>3,100,325</u>	<u>-</u>	<u>34,177,683</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	4,075,132	12,132	-	4,087,264
Road Equipment	9,708,203	1,344,816	443,268	10,609,751
Shop Equipment	153,169	3,357	-	156,526
Office Equipment	58,994	1,684	1,040	59,638
Engineers' Equipment	36,243	-	-	36,243
Depletable Assets	1,121,822	-	-	1,121,822
Infrastructure – Roads	28,713,152	2,062,776	1,068,026	29,707,902
Infrastructure – Bridges	<u>12,046,259</u>	<u>847,890</u>	<u>-</u>	<u>12,894,149</u>
Subtotal	<u>55,912,974</u>	<u>4,272,655</u>	<u>1,512,334</u>	<u>58,673,295</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

	Beginning Balances 01/01/06	Additions	Adjustments/ Deductions	Ending Balances 12/31/06
<i>Less Accumulated Depreciation</i>				
Buildings	1,357,150	125,623	-	1,482,773
Road Equipment	8,521,699	798,605	443,268	8,877,036
Shop Equipment	91,435	10,501	-	101,936
Office Equipment	49,151	7,381	1,040	55,492
Engineers' Equipment	31,929	2,209	-	34,138
Depletion	82,481	13,471	-	95,952
Infrastructure – Roads	11,546,033	1,525,505	952,516	12,119,022
Infrastructure – Bridges	5,695,198	282,118	-	5,977,316
Subtotal	27,375,076	2,765,413	1,396,824	28,743,665
Net Capital Assets Being Depreciated	28,537,898	1,507,242	115,510	29,929,630
Total Net Capital Assets	<u>\$ 59,615,256</u>	<u>\$ 4,607,567</u>	<u>\$ 115,510</u>	<u>\$ 64,107,313</u>

Depletion/depreciation expense was charged to programs of the Chippewa County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,100,759
Local Road Maintenance and Preventive Maintenance	706,864
Equipment Expenses	798,605
Administrative	13,744
Other Allocated	<u>145,441</u>
Total Depreciation Expense	<u>\$ 2,765,413</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The Chippewa County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**

**Funding Policy** – The obligation to contribute and maintain the system for these employees was established by negotiation with the Chippewa County Road Commission’s competitive bargaining units and requires an employer contribution of 0% to 10% of wages. The commission contributed an additional 16.07%.

**Annual Pension Costs** – For year ended 2006, the Chippewa County Road Commission’s annual pension cost of \$331,306 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2005 as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 9,626,892	\$ 9,958,825	\$ 10,111,961
Actuarial Accrued Liability	12,002,874	12,719,846	13,232,285
Unfunded AAL	2,375,982	2,761,021	3,120,324
Funded Ratio	80%	78%	76%
Covered Payroll	2,487,392	2,336,689	2,192,621
UAAL as a Percentage of Covered Payroll	96%	118%	142%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 277,774	100%	0
2004	309,188	100%	0
2005	290,269	100%	0

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2006, the federal aid received and expended by the Road Commission was \$1,139,259 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

**NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Installment payable secured by real estate mortgage, payable in monthly installments of \$5,055 including interest of 3.90%	\$ 431,744	\$ -	\$ 45,445	\$ 386,299	\$ 46,417
Installment payable secured by equipment, payable in monthly installments of \$648 including interest of 4.5%	26,760	-	6,725	20,035	7,042
Installment payable secured by (14) Peterbilt Trucks, payable in monthly installments of \$21,368 including interest of 4.46%	333,814	-	247,459	86,355	86,355
Installment payable secured by vehicles, payable in monthly installments of \$11,239 including interest of 3.79%.	<u>-</u>	<u>613,477</u>	<u>104,627</u>	<u>508,850</u>	<u>117,607</u>
Subtotal	792,318	613,477	404,256	1,001,539	<u>\$ 257,421</u>
Compensated Absences (1)	<u>479,248</u>	<u>-</u>	<u>61,958</u>	<u>417,290</u>	
TOTAL LONG-TERM DEBT	<u>\$ 1,271,566</u>	<u>\$ 613,477</u>	<u>\$ 466,214</u>	<u>\$ 1,418,829</u>	

(1) Net decrease.

Annual debt service requirements are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-2014</u>	<u>Total</u>
Principal	<u>\$ 257,421</u>	<u>\$ 177,768</u>	<u>\$ 182,657</u>	<u>\$ 183,913</u>	<u>\$ 64,741</u>	<u>\$ 135,039</u>	<u>\$ 1,001,539</u>
Interest	<u>\$ 33,107</u>	<u>\$ 25,538</u>	<u>\$ 18,585</u>	<u>\$ 11,610</u>	<u>\$ 6,454</u>	<u>\$ 6,452</u>	<u>\$ 101,746</u>

**NOTE 10 - POST EMPLOYMENT BENEFITS**

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985 and who were hired prior to February 1, 2005 until retiree's death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility the retiree's spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

Post employment insurance expenses for fiscal 2006 were \$585,494 including retirees paid portion of \$93,678 for 55 retirees.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission.

Risk Management – The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Environmental Remediation – The Commission has implemented environmental impact evaluation procedures at its Trout Lake, Michigan location. The cost estimated of any environmental remediation is not determinable at this time. Ongoing monitoring of any continuing contamination has been implemented at the Strongs, Michigan location. Future potential liabilities, if any, are undeterminable as of the opinion date.

## **Supplementary Information**

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## Chippewa County Road Commission

### Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2006

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 550,000	\$ 568,000	\$ 567,786	\$ (214)
Federal Sources	1,285,600	1,245,600	1,244,944	(656)
State Sources	5,668,200	6,020,000	5,982,558	(37,442)
Contributions from Local Units	800,000	750,000	756,654	6,654
Charges for Services	1,577,000	1,397,000	1,401,836	4,836
Other Revenue	<u>804,000</u>	<u>920,000</u>	<u>893,212</u>	<u>(26,788)</u>
Total Revenue	<u>\$ 10,684,800</u>	<u>\$ 10,900,600</u>	<u>\$ 10,846,990</u>	<u>\$ (53,610)</u>



## Chippewa County Road Commission

### Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2006

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road	\$ 2,928,000	\$ 3,858,000	\$ 3,987,980	\$ (129,980)*
Local Road	2,857,000	4,007,000	3,969,825	37,175
State Trunkline	1,577,000	1,400,000	1,379,565	20,435
Equipment Expense – Net	(250,000)	350,000	519,040	(169,040)
Administrative Expense – Net	114,750	250,000	238,837	11,163
Capital Outlay – Net	468,497	420,000	435,486	(15,486)
Other	1,893,500	141,000	140,774	226
Debt Service	<u>437,218</u>	<u>449,218</u>	<u>448,486</u>	<u>732</u>
Total Expenditures	10,025,965	10,875,218	<u>\$ 11,119,993</u>	<u>\$ (244,775)</u>
Fund Balance – January 1, 2006	<u>3,102,085</u>	<u>3,102,085</u>		
Total Budget	<u>\$ 13,128,050</u>	<u>\$ 13,977,303</u>		

\*Resulted from reclassification of Construction in Progress to a period cost.

## **Other Supplementary Information**

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## Chippewa County Road Commission

### Analysis of Changes in Fund Balances For the Year Ended December 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 4,161,237	\$ 4,138,654	\$ 2,547,099	\$ 10,846,990
Total Expenditures	<u>4,275,165</u>	<u>4,297,729</u>	<u>2,547,099</u>	<u>11,119,993</u>
Excess of Revenues Over (Under) Expenditures	(113,928)	(159,075)	-	(273,003)
Interfund Transfers	(159,075)	159,075	-	-
Fund Balance – January 1, 2006	<u>1,897,581</u>	<u>-</u>	<u>1,204,504</u>	<u>3,102,085</u>
Fund Balance – December 31, 2006	<u>\$ 1,624,578</u>	<u>\$ -</u>	<u>\$ 1,204,504</u>	<u>\$ 2,829,082</u>

# Chippewa County Road Commission

## Analysis of Revenues For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	\$ -	\$ 248,829	\$ 318,957	\$ 567,786
Federal Sources				
Surface Transportation Program	870,374	-	-	870,374
'D' Funds	343,633	-	-	343,633
Safety Funds	30,937	-	-	30,937
State Sources				
Michigan Transportation Fund				
Engineering	5,500	4,500	-	10,000
Allocation	2,252,951	1,784,978	-	4,037,929
Urban	256,221	53,973	-	310,194
Snow Removal	-	352,845	-	352,845
Bridge	-	864,089	-	864,089
Economic Development Fund				
Rural Primary (D)	98,074	-	-	98,074
Forest Road (E)	-	230,363	-	230,363
Urban Area (F)	79,064	-	-	79,064
Contributions from Local Units				
Township	166,552	554,799	-	721,351
Other	15,265	17,000	3,038	35,303
Charges for Services				
State Trunkline Maintenance	-	-	1,361,530	1,361,530
Nonmaintenance	-	-	18,035	18,035
Salvage Sales	-	-	22,271	22,271
Interest and Rents	42,666	27,278	-	69,944
Other Revenue				
Gain on Disposals	-	-	135,139	135,139
Other	-	-	74,652	74,652
Other Financing Sources				
Installment Proceeds	-	-	613,477	613,477
Total Revenue	<u>\$ 4,161,237</u>	<u>\$ 4,138,654</u>	<u>\$ 2,547,099</u>	<u>\$ 10,846,990</u>

## Chippewa County Road Commission

### Analysis of Expenditures For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 2,640,514	\$ -	\$ -	\$ 2,640,514
Maintenance	1,347,466	-	-	1,347,466
Local Road				
Preservation	-	2,517,586	-	2,517,586
Maintenance	-	1,452,239	-	1,452,239
State Trunkline Maintenance	-	-	1,361,530	1,361,530
State Trunkline Nonmaintenance	-	-	18,035	18,035
Equipment Expense – Net	167,494	208,758	142,788	519,040
Administrative Expense – Net	119,691	119,146	-	238,837
Capital Outlay – Net	-	-	435,486	435,486
Other	-	-	140,774	140,774
Debt Service				
Debt Principal Payments	-	-	404,256	404,256
Interest Expense	-	-	44,230	44,230
Total Expenditures	<u>\$ 4,275,165</u>	<u>\$ 4,297,729</u>	<u>\$ 2,547,099</u>	<u>\$ 11,119,993</u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners  
Chippewa County Road Commission  
3949 S. Mackinac Trail  
Sault Ste. Marie, Michigan 49783

We have audited the financial statements of the governmental activities and major fund of the Chippewa County Road Commission as of and for the year ended December 31, 2006, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated April 2, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Chippewa County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chippewa County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and response to be significant deficiencies in internal control over financial reporting 06-1.

Board of County Road Commissioners  
Chippewa County Road Commission

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chippewa County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Chippewa County Road Commission in separate letter dated April 2, 2007.

Chippewa County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Chippewa County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners, others within the Commission, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

April 2, 2007



**Section I – Financial Statement Findings**

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**NONCOMPLIANCE WITH STATE STATUTES**

**Expenditures in Excess of Appropriations—Budgetary Funds**

*Finding 06-1*

*Condition:* Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 25 of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Recommendation:* We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management's Response—Corrective Action Plan:* At year end, it was found that \$154,150 was incorrectly classified in the financial statements as work-in-process. This was done to comply with GASB 34 requirements that only recognize capital improvement expenditures upon project completion under the rules governing modified accrual accounting. These expenditures have to be recognized in the current period. As a result, this amount was not accounted for in the 2006 budget and is the main factor behind the excess amount incurred in the primary road line item. The excess amount in the equipment expense line item was a direct result of the unseasonably warm temperatures experienced in December 2006. This caused a decrease in equipment rental and an increase in building maintenance due to lack of work in other areas, mainly snow removal and other winter maintenance activities. Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

**Chippewa County Road Commission****Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2006**

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Project Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation:</b>				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT):				
Gaines Highway	20.205	STP 0617(003)	84449	\$ 356,551
Piche Road	20.205	EB 0617(006)	78861	335,753
Homestead Road – 9 Mile Rd. to 11 Mile Rd.	20.205	STP 0517(025)	51689	225,100
Nine Mile Road to Riverside Road	20.205	STP 0517(022)	76696	573
Jarvie/Hantz to 23 Mile	20.205	STP 0617(004)	76697	<u>221,282</u>
Subtotal MDOT Administered				<u>1,139,259</u>
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) – Local Force Account:				
S. Kinross Road	20.205	STL 17045	78862	74,748
Documentation of Historic Shipwrecks	20.205	ENH-2003-00148	73855	<u>30,937</u>
Subtotal CCRC Administered				<u>105,685</u>
Total U.S. Department of Transportation				<u>1,244,944</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 1,244,944</u></u>



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**Chippewa County Road Commission**

Communication with the Board of County Road Commissioners  
December 31, 2006

Members of the Board of County Road Commissioners  
Chippewa County Road Commission  
3949 S. Mackinac Trail  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the Chippewa County Road Commission for the year ended December 31, 2006, and have issued our report thereon dated April 2, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Chippewa County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Chippewa County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Chippewa County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Chippewa County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the component unit financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the component unit financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Trunkline maintenance contract liabilities, estimated useful lives of property, plant and equipment, and insurance reserves are some items which are estimates.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the component unit financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Chippewa County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Chippewa County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Chippewa County Road Commission's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the component unit financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's component unit financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Chippewa County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**Comments and Recommendations**

**Infrastructure Capitalization – Prior Year**

The Road Commission will be required to identify and depreciate infrastructure assets as required by GASB 34. The Commission should adopt a threshold of \$5,000 or \$10,000 to provide guidance on depreciable items capitalized.

Status: Corrected.

**Sick Pay Liability – Prior Year**

The Commission currently records its sick pay liability for employees, which includes earned amounts. The procedure should be amended to include amounts payable upon termination, which would result in a \$60,000 decrease in liability during 2004.

Status: Unchanged.

**Check Copies – Prior Year**

Due to changes in bank practices, the Commission does not receive canceled checks. The Commission should contact the bank to obtain "imaged" checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Status: Corrected.

**GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Chippewa County Road Commission required to implement the Statement for the year ended December 31, 2008. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2008, the Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners and Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Fraud Policy**

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Chippewa County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

April 2, 2007